

**County of Solano
Office of the Auditor-Controller**



**FOLLOW-UP REVIEW ON
COUNTY'S SURPLUS PROPERTY PROGRAM
EVALUATION REPORT ISSUED
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SCOPE OF REVIEW

The Solano County Surplus Property Program (Surplus Program) manages the disposition of County personal property, exclusive of real estate or real property, through reuse, sale, donation, and disposal. The Solano County Auditor-Controller's Office, Internal Audit Division, conducted a follow-up review on the County Surplus Evaluation Report (Report) issued on February 21, 2014. That Report focused on evaluating whether the Surplus Program is cost effective and determined Surplus Program expenditures were greater than revenues for six of seven recent fiscal years¹. As a result, the Report offered several recommendations to enhance marketing efforts and strengthen inventory and cash controls. Our follow-up was limited to reviewing actions taken, as of August 28, 2015, to implement the recommendations from the Report.

BACKGROUND

The Surplus Program was developed under California Government Code §25504 to sell, lease, or dispose of unneeded personal property of the County. The Surplus Program disposes of property having an estimated value of more than five hundred dollars (\$500.00) to the highest bidder² in accordance with County policy³. Property having an estimated value of less than five hundred dollars is sold pursuant to the Solano County Purchasing Policy.

The Department of General Services' Central Services Division Manager operates the Surplus Program. There are two additional staff assigned to the Surplus Program – a Stores Supervisor and an Inventory Clerk. The Stores Supervisor oversees the day-to-day operation of the Surplus Program warehouse and the Inventory Clerk assists in warehouse operations in addition to testing computers and other electronics received in the Surplus Program. None of the employees are dedicated full-time to the Surplus Program.

County property transferred to the Surplus Program is maintained at a warehouse at 2543 Cordelia Road, Fairfield, CA. The Surplus Program was required to relocate to this new location in July 2015. The warehouse space dedicated to the Surplus Program is approximately 16,000 square feet less⁴ than its initial location at 1745 Enterprise Drive in Fairfield, CA. Warehouse space available to the Surplus Program was reduced by 80%.

County departments transfer surplus property by completing a Property Transfer and Moving Request form, commonly known as an EMR. Prior to the physical transfer of computer and computer related property to the Surplus Program, Central Services coordinates with the Department of Information Technology (DoIT) to erase all information stored on computers. The Stores Supervisor arranges the pick-up and movement of property to the warehouse.

¹ - Fiscal year 2006-07 to fiscal year 2012-13.

² - Auction bids are accepted by the Surplus Program through the online auction platform *PublicSurplus.com*. Items are typically listed for a period of between four to fourteen days. If an item does not sell, it is relisted at a reduced minimum bid price until it is sold. *PublicSurplus.com* charges a 7% buyer's premium, which is paid by the successful bidder (buyer). The buyer must pay for and pick-up the item(s) from the warehouse within two Fridays of the auction's end date.

³ - County Code §22-40.

⁴ - The current available space is approximately 4,000 square feet while the previous location was approximately 6,000 square feet and prior to that, 20,000 square feet while at 1745 Enterprise Drive, Fairfield, CA.

The warehouse is open two days each week. On Wednesdays, County employees can browse surplus property available for reuse and on Fridays the general public can pay for and pick-up items won through the online auction or to purchase items at the warehouse.

Table A on page 3 of this report provides the revenues and expenditures for the Surplus Program for the fiscal years ended June 30, 2015 and 2014.

TABLE A:

Surplus Property
Statement of Revenues and Expenditures
For the fiscal years ended June 30, 2015 and 2014

REVENUES	<u>2015</u>	<u>2014</u>
Sale of taxable fixed assets	\$ 72,035	\$ 76,820
Sale of nontaxable fixed assets	21,079	14,734
Other revenue - scrap metal and toner cartridges	4,419	10,781
TOTAL REVENUES	<u>\$ 97,533</u>	<u>\$ 102,335</u>
EXPENDITURES		
Salaries and benefits ⁵	\$ 64,687	\$ 116,930
Service and supplies	6,108	6,361
Building use fee ⁶	22,168	28,771
Household expense	5,438	6,765
Office expense	660	295
Fees - Public Surplus ⁷	4,807	5,271
Utilities	644	1,230
Miscellaneous expense	22	130
Subtotal of expenses	<u>104,534</u>	<u>165,753</u>
Net benefit (loss) excluding moving expenses	(7,001)	(63,418)
Moving ⁸	25,000	21,005
TOTAL EXPENSES	<u>\$ 129,534</u>	<u>\$ 186,758</u>
Net benefit (loss)	<u>\$ (32,001)</u>	<u>\$ (84,423)</u>

Source: IFAS

⁵ - Salaries and benefits includes: Store Supervisor and Inventory Coordinator. The figures represent the employee's percentage of time allocated to surplus property.

⁶ - The building use fee figures for fiscal years ended June 30, 2015 and 2014 are computed based on monthly cost of \$0.2522 and \$0.2977 per square foot, respectively.

⁷ - Surplus Program pays fees to the public auction website, Publicsurplus.com, which is currently passed on to the customer and reflected in the sale of fixed assets.

⁸ - Moving expense reflects both the movement of goods from County departments to the surplus warehouse as part of the Surplus Program.

SUMMARY

Our follow-up indicated the Surplus Program implemented two recommendations; is in the process of implementing four recommendations; and has not implemented the remaining one recommendation.

RESULTS

Based on our follow-up review, the following is the implementation status of the seven original recommendations:

Finding No. 1: The Surplus Program is not a cost effective operation.

Recommendation No. 1(a): To increase cost effectiveness, the Surplus Program should evaluate which property generates the most sales volume, and consider donating or disposing of property valued at less than five dollars.

Current Status: **Fully Implemented**

Our follow-up found (1) management determined computers generate the most sales volume for the Surplus Program and (2) it will not be donating or disposing of property valued at less than five dollars. Management finds it more effective to continue its process of selling property valued at less than five dollars on *publicsurplus.com*. Management determined it is more effective for the Surplus Program to post an item for sale on-line than to attempt to donate it because the process of matching surplus property items with various non-profit organizations and/or schools is too time-intensive considering their current staffing resources. Based upon our review procedures, we consider this recommendation to be fully implemented.

Recommendation No. 1(b): To increase cost effectiveness, the Surplus Program should establish sale, donation, reuse, and disposal criteria for the Program each year to produce revenues greater than expenses.

Current Status: **Fully Implemented**

Our review determined management follows Chapter 13 of the County Purchasing and Contracting Policy Manual. However, we recommend management establish internal operating procedures that prioritize the disposition of surplus property in the following order:

- (1) *County Reuse:* Surplus property is made available to County employees for reuse for up to four weeks before it is available for sale to the public.
- (2) *Sale:* Surplus property is made available to the general public through the online auction platform, *PublicSurplus.com*.
- (3) *Donation:* Surplus property determined to have no value would be offered at no cost to schools and/or non-profit organizations.

- (4) *Disposal*: Surplus property identified as obsolete, broken, inoperable, unsalable, and/or unmarketable is thrown away.

We also recommend management consider adding an additional step, recycling, before disposing of property to a landfill. Materials such as scrap metal and *e-waste* should be recycled for salvage value if possible⁹. Any monies received should be deposited in the General Fund.

Recommendation No. 1(c): To increase cost effectiveness, the Surplus Program should increase marketing efforts to encourage the reuse of County property through regular updates to the intranet and monthly emails to departmental office coordinators.

Current Status: Partially Implemented

Our follow-up determined management has increased marketing efforts promoting the Surplus Program through the General Services Department newsletter, *Craigslist*, and social media outlets such as *Facebook* and *Twitter*. However, it did not make regular updates to the intranet or send monthly emails to departmental office coordinators. Most of their efforts focused on promoting surplus auction sales to the general public and not on reuse to County employees. As such, we consider this recommendation partially implemented.

Management should further consider increasing County employees' awareness of the Surplus Program through the following practices:

- Regularly update the surplus property intranet page and provide a current inventory list of surplus items available for reuse;
- Increase the frequency of emails/newsletters to County employees;
- Consider adding a link to *PublicSurplus.com* on the intranet homepage and to the County's internal surplus site for items available for reuse; and
- List County shopping day on Wednesdays and public surplus sales on Fridays as events on the County calendar.

Recommendation No. 1(d): To increase cost effectiveness, the Surplus Program should establish policies and criteria for donations to ensure fair distribution of property.

Current Status: Partially Implemented

Our review determined management follows Chapter 13 of the County Purchasing and Contracting Policy Manual. However, management should establish internal operating procedures for donations to schools and non-profit organizations to ensure fair distribution of surplus property.

Management may want to consider the following:

- The County of Orange's surplus property program is similar to Solano County in which computer equipment and other office supplies are offered to schools first. The County of Orange uses a pre-approved list of 501(c) non-profit organizations. A new group of 25 agencies is selected each year.

⁹ - It should be noted the Surplus Program has only had to remove *e-waste* once at a cost of \$25.

- The City and County of San Francisco publishes their surplus inventory list online for non-profit organizations to review. Non-profit organizations then submit written requests for specific surplus items that are available.

Finding No. 2: The Surplus Programs' inventory and cash controls need improvement.

Recommendation No. 2(a): To increase controls over property and cash, the Surplus Program should develop consistent methods among Departments for processing the transfer, sale, and/or disposal of property.

Current Status: **Not Implemented**

Our review determined the Surplus Program has not yet implemented changes to its inventory system. The Surplus Program uses a three-part form (EMR) to record the movements of surplus property to and from the warehouse. The EMR form is the only record maintained by the Surplus Program. In accordance with County policy, management tracks fixed and controlled assets in *TRLAD*. However, personal property is not tracked¹⁰. As such, we consider this recommendation as not implemented.

It should be noted management is seeking to improve their process by utilizing an electronic inventory system. Specifically, management has appropriated funds in the FY15-16 budget for incorporating barcodes and handheld scanners to streamline their process.

Another inventory practice management could consider:

- *PublicSurplus.com* has an internal reallocation feature that allows the Surplus Program to reallocate surplus items internally. This feature is offered to the County at no additional cost and allows the Surplus Program to automatically notify all departments of surplus items available for redistribution. Interested departments could then electronically request certain surplus items on a first-come, first-served basis.

Recommendation No. 2(b): To increase controls over property and cash, the Surplus Program should periodically perform accountability and oversight checks to ensure fixed and controlled property sales are recorded properly and timely.

Current status: **Partially Implemented.**

We performed testing of the cash receipt process through observation, management inquiry, and a reconciliation of cash deposited for the week ending July 31, 2015. Although the Surplus Program improved its process, our testing found there is a lack of segregation of duties with the cash receipts process.

Specifically, we noted the following:

¹⁰ Management does not track personal property because (1) County policy does not require it and (2) limited staff resources.

- The Surplus Program records sales with a cash register. However the cash count at the end of day is not documented. The cash register total sales tape (“Z-tape”) should be reconciled to total cash. Section 1.g of the “Accountability & Monitoring” section of the County’s Imprest Cash Policy requires the fund custodian to count and reconcile cash on hand to the amount of the authorized fund on a daily basis or on a weekly basis if cash is not used daily. Although Surplus Program staff performs a weekly reconciliation prior to depositing cash with the Treasurer, we recommend the Surplus Program document its cash count in writing and use the “Z-tape” in its reconciliation process.
- A cash shortage estimated at one hundred dollars was identified on April 24, 2015. An investigation was not performed; as a result management is unsure why cash was shorted. Section 1.i of the “Accountability & Monitoring” section of the County’s Imprest Cash Policy requires any missing funds, overstatement or understatement, be brought to the immediate attention of the Auditor-Controller’s Office. We recommend management comply with County policy.
- All staff participates in the cash handling process. Section 1.e of the “Accountability & Monitoring” section of the County’s Imprest Cash Policy requires the fund custodian(s) must not have any other cash handling responsibilities. Although this may be difficult due to the limited staffing, an available option is the Inventory Clerk handles cash while the Stores Supervisor acts as the fund custodian and prepares and reconciles the deposit permit. Segregating the cash handling, recording, and depositing functions would strengthen the internal controls over cash receipts of the Surplus Program.

Other matter:

- The Stores Supervisor prepares a weekly itemized transaction report as part of the cash reconciliation process. However, the reports only list the amount received from each receipt for the period. We recommend the Stores Supervisor also include either the date of the receipt or the receipt number next to each amount to enhance the integrity of this cash receipts record.

Based upon the above, we consider this recommendation partially implemented.

Recommendation No. 2(c): To increase controls over property and cash, the Surplus Program should maintain cash in a secure location and deposit in accordance with County Code §11-13.

Current status: **Partially Implemented.**

Our review determined cash is maintained in an industrial-type combination lock safe in the Store Supervisor’s office that is located inside the warehouse. Surplus Program staff is in the process of bolting the safe to the floor. This is considered adequate.

Additionally, we reviewed cash deposit procedures. Pursuant to County Code §11-13 overnight storage of cash collected are not expected to exceed five hundred dollars unless approved in writing by the county auditor. Our testing revealed cash on hand for the Surplus Program stored in the safe usually exceeds the five hundred dollar limit.

Due to the hours of operation of the Surplus Program and the County Treasury, and the location of the warehouse, staff is unable to make the deposit into the Treasury in person by the close of business on Fridays, by 4:00 PM. As a result, cash is stored in the safe over the weekend and is deposited the next business day (generally the Monday following the surplus sale on the prior Friday).

Based upon the above, cash is considered to be held in a secure manner and location. However, the Surplus Program is not in compliance with §11-13 as the amount of cash stored overnight exceeded the five hundred dollar limit¹¹.

We recommend the Surplus Program seek written approval from the county auditor for overnight storage of cash collected exceeding the five hundred dollars threshold as prescribed by §11-13.

We would like to thank the Central Services Division management and staff for the assistance and cooperation extended to us during this follow-up review.

¹¹ - Management represents changing the day of the surplus sale from Friday to Thursday to increase the likelihood that cash could be deposited into the Treasury at the close of business and avoid being stored in the safe over the weekend would likely result in lost customers and decreased revenues. As a result, such change is not recommended.